



July 1, 2002

To The Honorable Council
City of Norfolk, Virginia

Lady and Gentlemen:

This letter serves to formally transmit the Fiscal Year 2003 City of Norfolk Approved Budget. Adapting the adage "What a difference a day makes," the Approved FY03 Budget reflects what a difference a year has made. This time last year, the FY02 budget reflected a better time with more than modest revenue increases and the financial capacity, within limits, to make upward adjustments in the allocation of resources for priority areas. Albeit, we should not be surprised because the Five Year Forecast indicated a slow down in the rate of revenue growth and warned that increased expenditures should be expected. Beyond this general description of the City's financial challenges, it may be helpful to answer the question, "What is different?" There are four major reasons for the difference.

Reason Number 1: This year, the Approved Budget was drafted amid a recessionary state and national economy; further compounded by the events and aftermath of September 11, 2001. While the economy is showing signs of an upturn, the pace and rate of recovery, based on past history, would suggest full economic rebounds take at least 12 to 18 months.

Reason Number 2: Costs are going up, in some cases alarmingly so. Essential goods and services items such as health care premiums, school construction, utilities and fuel, to name a few costs, are going up 10 to 20 percent.

Reason Number 3: Add to rising costs, major reductions in State funding of local programs for FY03. The City will receive about \$3.2 million less than anticipated for constitutional officers, Public Health, Human Services, youth services, schools and cultural facilities. Further, the State will curtail its roads program by millions of dollars. In addition, the impact on Norfolk is still uncertain in several other State-funded areas.

Reason Number 4: The re-introduction of required contributions to the City retirement plan and the inability to any longer defer cost for maintenance and the replacement of facilities, basic equipment and infrastructure must be addressed.

These four challenges caused an initial budget balancing requirement of over \$25 million. Yet, I am pleased to say we have met the challenge and this letter serves to transmit the FY03 City Financial Plan of \$812,059,700. It includes a \$631,989,100 General Fund Operating Budget and a \$45,251,200 General Capital Improvement Project Budget. The Approved Capital Budget for other funds is: \$3,210,000 for the Water Enterprise Fund; \$2,270,000 for the Wastewater Enterprise Fund; \$2,000,000 for the Storm Water Fund; and \$250,000 for Parking.

Also included are operating budgets for the Enterprise Funds: \$67,995,200 for the Water Fund; \$15,115,300 for the Wastewater Fund; \$8,413,000 for the Storm Water Fund; and \$18,170,000 for the Parking Fund. Included as well are the following Special Revenue Funds: \$3,869,000 for EOC Operations; \$4,041,500 for Nauticus; \$1,045,400 for the Towing Fund, \$1,675,000 for the Cemetery Fund; \$4,265,000 for a new Public Amenities Fund; and \$2,500,000 for the Strategic Land Acquisition Fund.

In addition and under separate cover, the FY03 Consolidated Plan for Community Development Block Grant (CDBG) HOME and Emergency Shelter Grant programs are submitted for your consideration.

Our budget deliberations were guided by the following objectives:

- Continue building and maintaining strong neighborhoods,
- Protect and develop the young through education and provide good social and cultural conditions that support healthy families,
- Remain a safe and clean city, and,
- Invest in opportunities that promote growth and financial capacity.

Accomplishing these objectives required addressing every financial issue and budget proposal with certain factors in mind. Among these factors were:

- Determining the impact on essential public services,
- Honoring the City's six priorities, as approved by Council,
- Measuring the impact on operational effectiveness,
- Assuring fiscal integrity and flexibility,
- Complying with legal and contractual requirements,
- Keeping faith with the promises made to our residents and employees, and
- Not making promises we cannot keep.

PROMISES MADE, PROMISES KEPT

The City's budget represents more than just dollars, it is our resource document for directing and ensuring the continuation of fulfilling promises and setting expectations.

The first promise that the City Council and Administration have made to our residents is to keep the tax burden as low as possible.

Once again, for the fifth consecutive year, Norfolk is able to present a balanced budget that does not call for increasing the property tax rate on Norfolk residential and

business property owners. What makes this possible is the continued success the City is experiencing in its investments.

Those very limited taxes and fees we increased are tied to programs that enhance the quality of life in Norfolk and are paid by users. They are outlined in the revenue section of this message.

Some promises met are works-in-progress, but deserve mentioning at this point in the budget message because they serve to also highlight key budget accomplishments:

Education Promise:

- Schools are provided with the full amount of funds requested in the Operating Budget. The City provides \$88,853,663 of local funds, which is \$5 million more than in fiscal year 2002.
- Additionally, in FY03, \$16,462,400 in capital funds have been allocated for the middle school technology initiative, to address southside school concerns and to continue forward with plans to construct a new Norview High School.

Neighborhood Promise:

- Neighborhoods receive millions in resources for programs, parks and housing.
- Funding in the FY03 Budget sets aside the full amount of money needed for the first anchor branch at the Pretlow location.
- More than \$1 million in new funds is earmarked to honor City Council's commitment to "housing first" through the City's *Come Home to Norfolk Now* initiative.
- We retain our commitment to ensure the East Beach redevelopment is done right by providing funds for the remaining property acquisitions and restructuring of the East Beach loan.

Employee Promise:

- With limited resources, we crafted a salary increase that is available to all employees and continues our promised movement toward a pay system based on skills and competencies.
- We are committed to finding affordable health care and giving employees a choice in health care coverage.

The remainder of the budget message outlines key funding areas. For ease of reading, FY03 Capital Improvement Project (CIP) spending is included with each section. The CIP schedule included with this message shows the City's anticipated spending in fiscal years 2003 through 2007.

ALLOCATION OF REVENUES

Fifty percent of the City's total revenues are locally controlled. But, over two thirds of that 50% is used to match external revenues, supporting programs and activities for our citizens; to honor commitments made to continue new or expanded fully City-funded program costs; and, to continue reinvestment efforts such as economic development to further expand the local economy.

For example, locally controlled funds are used for street lighting, refuse disposal and public safety. They are also used to honor previous commitments such as the Police Assisted Community Enforcement (PACE) program, programs providing the local match for State school funds, Public Assistance Grants and Social Services Administration and Debt Service.

By using locally controlled revenues to reinvest in our economy we generate "new money" that can be used for other programs and services. Two examples of this reinvestment are MacArthur Center and Harbor Park. In fiscal year 2002, MacArthur Center brought in over \$5.4 million in sales, business license, personal property, admissions, restaurant, and lease payments that previously did not exist. In addition,

the FY01 real estate tax revenue generated from MacArthur Center contributed \$1.9 million to the City's General Fund.

Harbor Park continues to attract visitors and tourists to our City who spend money locally to further enhance local tax revenues. While these projects bring new revenue to the City, other local revenues remain flat and some are declining, making it important for the City to continue to enhance its tax base through economic development activities.

Investment in profitable enterprises supports the City's neighborhoods and residents by generating more discretionary revenues.

REVENUE OUTLOOK

It could have been a very good year

Look just about anywhere in Norfolk and you will see new residential and business construction and renovation, as the richness of the urban lifestyle continues to attract residents and firms to our community. Expansion Management Magazine named the Norfolk area as the 6th hottest area in the country for business expansion and relocation.

The \$395 million expansion of the Ford plant will mean an additional \$1.9 million in tax revenues. It is a testament to the strength of Norfolk and its workforce that this expansion comes at a time when Ford is closing plants elsewhere.

Norfolk was also successful in attracting new businesses. Southwest Airlines picked Norfolk out of 145 cities for its low-fare service, giving Norfolk International Airport a much-needed boost in the wake of a countrywide slowdown in air travel. Norfolk also successfully attracted the North American headquarters of one of the world's largest shipping lines (Zim American Israeli Shipping Company), along with high-tech firms, manufacturers and defense contractors.

Completion of landmark projects such as 150 Main Street, the new Marriott Suites Hotel, the revival of Boush Street, construction of new housing in Ocean View,

continuing re-creation of Park Place and beautiful, new, in-fill housing throughout our city will continue to provide new resources for Norfolk.

Revenue Projections

While the economic slowdown has affected the rate of revenue growth in Norfolk, as the economy pulls out of the recession and starts to grow, the rate of revenue is projected to increase.

Revenue estimates for FY03 reflect a 4.7 percent growth over the prior fiscal year, bringing the City revenues to \$631.9 million.

The real estate tax rate remains unchanged since 1996 at the current rate of \$1.40 per \$100 of assessed value. Assessments are projected to grow at an average rate of 5.0 percent citywide, reflecting a strong residential real estate market as well as growth in the commercial real estate market, thanks to new businesses and expansion in Norfolk.

Robust car sales generated by “zero percent interest” are responsible for a higher projected increase in personal property tax growth in FY03.

In other revenues, machinery and tools tax revenue is projected to increase by over 26 percent, primarily due to the expansion of the Ford plant. Sales tax is projected to maintain growth at a rate consistent with the Consumer Price Index, currently 2.2 percent. The tax on hotel rooms and on prepared meals is also expected to grow.

The State provides 41 percent of the City's total revenue, virtually all of it for dedicated purposes such as education, constitutional officers and social services. As occurred this year, the State projects substantial revenue shortfalls through FY05.

When the State originally proposed funding cuts of \$3.2 million in various categories, keeping our promises meant putting requests that we make up all \$3.2 million in perspective.

Raising revenues to close the \$3.2 million gap would mean a 4-cent increase per \$100 in the real estate tax.

OR

Sufficiently reducing expenditures would amount to abolishing the following positions:

- 14 firefighters
- 16 police officers
- 1 librarian
- 2 staff in the Commonwealth Attorney's Office
- 17 deputies in the Sheriff's Office
- 1 staff each from the Commissioner's and Treasurer's Office

Clearly, the City could not entirely make up the reductions. So, we restored, to the extent possible, funding that would directly impact services to residents.

Tax increases

Although tax and fee increases are never desirable, they are sometimes necessary. There are a limited number of tax and fee increases.

Restaurant and motel/hotel tax. To continue the City's successful tourism program, improvements to existing facilities and planning and preparation for new venues are needed. To provide limited revenue for this purpose, two taxes are increased by 1 percent: the meals tax (from 5.5 percent to 6.5 percent), and the hotel/motel tax (from 7 percent to 8 percent). This generates \$4.2 million in additional revenue. Although these are general-purpose taxes, my reason for increasing these taxes is single focused on enhancing our visitors and tourism business. Therefore, the increased increment of revenue will go into a special revenue fund and be fully accounted for each year.

Norfolk has never made small plans or pursued small dreams. As a result, Norfolk has achieved even more than its visionaries genuinely may have thought possible. Continuing that tradition means planning for tomorrow's public facilities.

Scope is 30 years old and—as special a convention, sports and entertainment facility as it has been, and despite the investment we are making to ensure it continues to serve the City and the region with distinction—it will not meet all of tomorrow's needs.

Therefore, the following expenditure plan is presented for the \$4.2 million generated by the hospitality tax increases:

- Two million dollars will be escrowed each year to build a major public facility for the assemblage of people, sports and entertainment in the future. The two choices, one of which should be chosen by City Council, that I recommend for consideration are an arena or a larger convention center. I believe the Council's decision will first require further fact-finding and public discussion throughout the community.
- The remaining \$2.2 million of the \$4.2 million is to be spent as follows: \$750,000 per year for improvements to SCOPE and the SCOPE plaza; \$250,000 for improvements to other civic facilities; and \$700,000 site preparation for the new facility. The remaining \$500,000 is for challenge grants to our partner organizations for one-time and demonstration project expenses. Such grants should be performance based, bringing increased visitors and tourists to Norfolk.

Emergency 911 fee. To assist with full funding of the operating costs of the Emergency 911 Center, the City raised the tax on land phone lines by 0.20 cents (cell phones are already at the State-allocated limit). Revenue from the Emergency 911 tax will be moved into a Special Revenue Fund to better track revenue against expenditures. The 911 Communication Center costs are \$4,148,000. The current tax rate of \$2.20 generates \$3.3 million. The 911 Center dispatches 425,000 emergency fire, police and medical calls a year. The City is also in the midst of acquiring a new Computer Aided Dispatch (CAD) system that, when all the phases are complete, will cost well over \$3 million.

Charges for services: Three new fees were authorized by the State that may be imposed locally, and Norfolk adopted the changes effective July 1:

- \$25 for jail processing fees for those convicted and held in the local jail.
- \$25 for DNA samples of convicted felons, collected as part of court costs. The revenues from this fee must be shared with the State. The Approved Budget reflects only the net revenues we project Norfolk will receive.
- \$5 per criminal and traffic case. This fee is referred to as the courthouse security fee. Under the current State authorizing legislation, this fee will sunset in two years.

DEBT

In FY02, the City paid off \$8.5 million more in general obligation bonds than it issued; and in FY03 we anticipate paying off \$46.7 million in general obligation bonds. The City has a self-imposed goal of reducing its outstanding general capital, general obligation debt to a recommended policy level of 3.5 percent of assessed values of taxable real property. We now anticipate achieving that goal by the end of fiscal year 2005, in recognition of the City's capital needs, particularly with neighborhood projects. The City's continued pay as you go policy, rapid repayment of debt, fund balance and reserves policy should continue to ensure our favorable bond rating.

EXPENDITURES

Stretching to fund education

Educating our children and preparing them to reach their highest potential requires our teachers and school buildings to be supported and adequately equipped. As stated earlier, this budget contains \$88.9 million in local funding for schools, which is \$4,971,119 over this fiscal year (FY02). In major part the Norfolk Public Schools (NPS)

requests go to address a shortfall in funding from the State, which provided \$156.9 million.

Specifically, the State provided no money for teacher pay increases and reduced or eliminated supplemental basic aid programs for additional teachers in 4th and 5th grades, Standards of Learning (SOL) teacher training, truancy and dropout programs and alternative at-risk programs. It also required the Schools to pick up a portion of the retired teacher health care credit previously funded entirely by the State.

The unprecedented local school funds represent a 5.9% increase in local funds. The City is only able to achieve this significant increase and other budget requests as a result of applying some one-time, non-recurring resources.

The \$5 million to Schools follows a \$3 million increase in local funds last year and does not include approximately \$3.6 million the City spends annually to support schools, such as School administration building maintenance, school grounds maintenance, playgrounds, fences and outdoor basketball and tennis courts and grass cutting, school nurses, crossing guards, school resource officers, and after-school and educational programs offered by Neighborhood and Leisure Services.

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It is important that our communications with the School Board remain clear. Whenever possible, we will stretch to support education, as we have for FY03.

Similarly, it is appropriate to expect NPS to submit the next year's (FY04) budget request understanding that this increase was made possible in part from one-time revenues, and future requests will not assume 100 percent of the approved funding is permanently added to the school budget. Rather, some \$1.5 million to \$2 million of the local share approved for FY03 of \$88.9 million should be assumed by the State or some other programming source going forward.

The schools should also be able to benefit from an increase of \$1.9 million in federal impact aid. NPS has identified the purchase of replacement/additional textbooks as the greatest need for this increase.

This coming year, it is critically important that the City and NPS work closely to ensure common goal setting and approaches to achieving those goals. This is especially true when it comes to the cost of building or renovating schools. Two years ago, the construction of Norview High School and renovation of Blair Middle School together was forecast to be \$32 million and the City committed to that level of spending.

Today, the total cost of Norview alone is projected to be \$46.9 million—nearly \$15 million more than was projected for the two school projects. In discussions with NPS, it was agreed that the City's \$32 million would be committed entirely to Norview (to date, the City has spent \$3 million and will fund \$12.2 million in FY03). NPS will use State lottery funds for school maintenance and renovations.

Neighborhood and Leisure Services

The budget for the Department of Neighborhood and Leisure Services is \$14.2 million. This is a \$2.1 million increase over FY02. The budget reflects the transfer of the City's existing Multi-purpose Service Centers previously housed in the Department of Human Services to Neighborhood and Leisure Services.

With this budget, the department augments its current Codes Inspectors programs with environmental inspector aides transferred from the Health Department. The transfer of the health aides will result in cross-training opportunities.

- In the CIP, funds are included toward the design and construction of a multi-use recreational facility to replace the aging recreation center in Norview. Another \$250,000 is available to begin design for the next recreation center.

- \$150,000 is included to fund improvements to Barraud Park. The City will work with the community to develop a master plan to address what needs to be done to turn this area into a community jewel.
- The department is authorized to hire one recreation specialist and four part-time recreation aides to support the Titustown Recreation Center expansion, which includes increased hours of operation, visual arts, senior services and a licensed day care program for before and after school.
- In an effort to provide safer, cleaner and more customer friendly service to residents, the department is authorized to hire eight part-time recreation aides to be available at the City's four major parks.

Sports Master Plan. The City has many athletic fields and facilities, all of which need upgrades and better upkeep. \$250,000 is available for improvements to recreation centers. Also, we have the start of improvements to the soccer fields at Lake Taylor High School. Included in the budget are funds to develop a better plan for further actions to address our organized sports areas. We will work with users and residents to identify the best use of facilities and to determine what is needed in the future to address our outdoor recreational needs. Included in this will be study of a soccer/football stadium.

Community markets. The City opened two community farm markets in June of this year at Five Points and Church Street. The markets serve as community gathering places, with the sale of fresh fruits, vegetables and other local products. Both markets will operate two days per week starting in June 2002. Additional money is in the budget to continue the markets through September 2002.

Parks and Forestry. This budget includes \$14,050 for a greenhouse at the City nursery. This will reduce City dependence on commercial growers and allow the City to

grow its preferred seedlings. The City adds 20-30 new major landscape projects in commercial areas and neighborhoods each year. A total of 335 new acres of maintainable landscaping has been added since 1999 without an increase in staff. In FY03, major landscaping projects include Martin Luther King, Jr. Plaza, Freemason Harbor, Cultural Arts and Technology Center, Wisconsin Park and Waterside Drive I-64 corridor landscaping.

Making people and their homes our priority

A great city is known not only for its buildings, but most importantly for its people. Norfolk's people are its strength. Keeping and attracting diverse, engaged citizens is Norfolk's best investment in its future.

The FY03 budget solidly expresses City Council's prioritization of "housing first." The City has initiated a strategic housing initiative ambitious, if not more so than, any City effort undertaken. We have sought and won millions in federal funds and consolidated local dollars and resources to have the maximum impact in improving housing opportunities and the health of neighborhoods in Norfolk. Components of this effort include the following.

Come Home to Norfolk Now is the umbrella for our housing and neighborhood efforts and is headed by the Department of Planning and Community Development (formerly City Planning).

Come Home to Norfolk Now is a coordinated effort to strengthen the competitiveness of Norfolk's neighborhoods within the region; improve the City's existing housing stock; facilitate the development of quality new construction reflecting the architectural character of established neighborhoods; and market the City and neighborhoods as good places to live.

The FY03 budget contains, between new and rollover funds, \$2.7 million capital improvement funds. These funds will be used for public infrastructure, along with

operating funds to leverage both individual residents and private financial institutions investments.

Announcement of *Come Home to Norfolk Now* drew over 600 enthusiastic community and business leaders to the Norfolk Botanical Garden where afternoon and evening sessions provided a forum both to announce the program and to gather feedback. Already the private sector is stepping up to the plate to partner on many activities.

Plans for this year include:

- Implement a citywide neighborhood-based strategic planning process
- Begin the process of updating the General Plan
- Improve the code enforcement and blight removal process
- Improve obsolete commercial corridors
- Develop and implement a citywide home improvement program
- Create Design Review Districts
- Leverage public and private financial and technical resources
- Develop and implement an internal and external marketing campaign
- Promote neighborhood development by devising a plan to acquire and improve tax delinquent properties
- Seek revisions and increase publicity about the Residential Tax Abatement Program
- Design a comprehensive technology-driven Customer Relations Management System
- Continue to encourage Downtown Housing. In just ten years, the number of people living downtown increased by 20 percent, and demand for additional residential development is strong and projected to remain so.

Conservation: For years the City has designated conservation neighborhoods to receive special attention. Those efforts will continue, as the conservation neighborhood program is a component of the citywide housing initiative. In fact, many of the accomplishments in our conservation areas will serve as a model. The conservation

areas will gain from the citywide housing initiative in that there will be enhanced coordination, collaboration and resource sharing between the City and NRHA.

In addition to the money for the citywide housing initiative, this budget contains \$7.6 million in CIP funds for conservation neighborhoods. The conservation money will be used for acquisition, demolition, conservation, preservation and redevelopment activities in the following communities:

- **\$3.5 million for the East Beach project.** Over the past 20 years, as Norfolk revived its downtown, residents called for attention to the City's northern edge — the densely populated and deteriorating Ocean View—where some envisioned what could become Norfolk's "gold coast." Since 1987, when the Urban Land Institute provided a blueprint for the re-creation of Ocean View, the City has consistently invested in remaking the community. Most recently, attention has been focused on the 90 acres called "East Beach", the redevelopment project launched in 1993, and reaching the culmination of the acquisition and demolition phase in FY03. While redevelopment of Ocean View and the 90 acres may not have proceeded as swiftly as may have been hoped, progress has been consistent. The beach has been replenished from Willoughby to Little Creek Inlet. Pretty Lake has been dredged. New homes have been developed all along Ocean View Avenue. Over \$30 million has been spent to prepare the 90 acres of East Beach for development. A new, 20-foot-high bridge has been constructed over Pretty Lake to provide greater access to the Chesapeake Bay. Numerous unsavory businesses have been acquired and demolished throughout the corridor, and codes enforcement and public safety efforts have been intensified. The City has also resurfaced Ocean View Avenue.
- **\$4.1 million to be used for the conservation neighborhoods** of Lamberts Point, Central Brambleton, Berkley, West Ocean View, Cottage Line, Bayview, Huntersville/Church Street, Midtown, Downtown, Park Place, Marshall Manor, Willoughby and Campostella Heights.

Prior CIP funding totals \$59.9 million for conservation neighborhoods.

Funding for other neighborhood and housing initiatives in the FY03 Budget includes Broad Creek Renaissance/Hope VI, one of the largest redevelopment programs in the City's history. This is an ambitious revitalization project partially made possible by a \$35 million Hope VI grant from the Department of Housing and Urban Development. The project will use federal and local money to rebuild, revitalize and protect 14 neighborhoods in a two-square-mile area located just east of downtown. The CIP has \$250,000 for areas around the federally designated HOPE VI area.

Additionally, there are partial funds for sewer, water and storm water improvements. It is estimated that \$14.5 million will be spent on infrastructure work for the Hope VI project area alone. NRHA and the City are reviewing the feasibility of establishing a Tax Increment Financing District (TIF) in the entire Broad Creek Renaissance area to pay for it. It is NRHA's intention to apply for a Section 108 Community Development Block Grant loan whose debt would be serviced by the TIF through the future projected property tax growth.

Other Housing Partnerships:

The City gives the Norfolk Redevelopment and Housing Authority \$9 million in federal Community Development Block Grant, HOME and administration funding.

In exchange for \$50,000 in City-supplied materials, the youth-mission program World Changers will repair homes in Norfolk. World Changers volunteers plan to work on as many as 40 houses in Norfolk this summer.

The City continues to explore funding opportunities with other public and private sector entities. An excellent example of this type of funding is the \$4.08 million in State money recently awarded to the Norfolk Redevelopment and Housing Authority for the construction of 41 new housing units, rehabilitation of 10 units and for loans. The

SPARC program uses mortgage revenue bond funds to provide financing at ½ percent lower than the Authority's standard below-market rate.

Atlantic City Initiative. The very successful Urban Land Institute visioning study conducted for Atlantic City has left us inspired and committed to redevelop this area. The ULI final report is expected by July and we should continue the momentum based on acceptance of the direction set forth. The next steps should include the City Council and NRHA formally adopting the recommendations. The City then needs to conduct a public infrastructure assessment and perform conceptual design for the Atlantic City vision. \$100,000 has been included in the budget to commence these next steps.

Seeding Universities to Rebuild Communities. The budget recognizes the importance of our City's universities and is putting its money where it most matters--both for Norfolk State University and Old Dominion University and the neighborhoods that surround them.

The acquisition of property around Old Dominion and the transfer of that property to Old Dominion University to facilitate the construction of the Convocation Center, have recreated the mid-section of Hampton Boulevard. Widening of Hampton Boulevard and improving intersections throughout the area is creating a fresh face and new opportunity for private investment. In total, the City's investment will be \$15 million.

The City is also working with Norfolk State University as it begins its three-phase development plan for 11 acres located across Brambleton Avenue. Phase I is the RISE Center, a multipurpose education, training and research facility that will offer workforce training for technology employment, along with business incubation services and facilities for high-tech start-up firms. \$270,000 is funded in the CIP Budget to begin the joint partnership with Norfolk State University where work in the South Brambleton area must include land acquisition and public infrastructure improvements.

Public Safety

Police

\$47.4 million is provided for police operations. The City continues to fund an “overhire” program in which the department can hire and train officers in one academy to fill projected turnover prior to the next academy.

Highlights of other Budget changes in the Police Department include adding:

- \$20,000 for replacement firearms
- \$125,000 for building repairs (contained in the budget of Facility and Enterprise Management)
- Additional \$25,000 for employee training
- \$25,000 for equipment

The Police Department is in the process of purchasing additional video cameras for installation in police vehicles. A combination of City and grant funding will be used to purchase the additional cameras. These cameras will complete the installation of cameras in all marked patrol cars. The anticipated target date for final installation is mid-fiscal year 2003. Laptop computers have been purchased. The computers should be fully installed in all police vehicles by July 2003.

Three unfilled positions originally established for a planning and research team are deleted from the Police Department Budget. The Planning & Research team has merit, and when the City’s financial conditions are better, re-establishment of this unit should be considered.

Fire and Rescue

Highlights:

- An additional \$100,000 for repairs to fire stations is approved for a total of \$200,000 for this purpose.
- Also approved is elimination of the fitness trainer position because firefighters have undergone training to become peer personal fitness coaches to their squads. We are already seeing results from this innovative program; the department as a whole reported a 14 percent increase in fitness scores.

- Exhaust systems for ladder trucks

Judicial

There has been considerable discussion regarding the long-term needs to replace the existing courts building. The vision of a consolidated Hall of Justice, where civil, general district and juvenile and domestic relations courts could be co-located in new facilities is a goal the City should strive to achieve.

However, the City's FY03-07 Capital Improvement Plan has no financial capacity to incorporate the funding of a new court facility. Work will continue with the judges to further crystallize and identify the best location, and prepare cost estimates for a new facility using money budgeted in the FY02 CIP to further refine and update the existing courts plan.

To address the most critical current needs, \$650,000 has been budgeted for FY03. This money will go to fund safety, health and security issues. The list of short-term needs exceeds the \$650,000 that could be made available in FY03. Therefore, with the adoption of the budget, the City administration will work with the Judges to reach consensus on what should be funded in FY03 and what will be addressed in FY04. The 5-year CIP includes \$2.3 million for this effort.

Among the first year (FY03) projects under consideration are the following:

CIRCUIT COURT

- Courthouse Refurbishment
- Courtroom #3 Holding Cell Construction
- Security Enhancements
- Judges Parking
- Sallipoint for Prisoner Transport
- Elevator Renovations

JUVENILE AND DOMESTIC RELATIONS COURT

- Elevator Renovations

- Additional Space--Better Designed Family Court

GENERAL DISTRICT COURT

- Two Additional Temporary Courtrooms Using Modular Units
- HVAC and Electrical System Upgrades.

All of these items total well over \$1.5 million.

The City regrets that the State severely cut funding for the Drug Court, a new program with promising results; and while unable to fully cushion the blow, \$50,000 is included for the Drug Court.

Constitutional Officers

The State has reduced its reimbursement for the Commissioner of Revenue, City Treasurer, Sheriff and Office of Elections. The City already includes money to supplement State funding in its operating budget and was unable to fully restore state cuts.

OFFICE	STATE CUT	CITY BACK-FILL
Sheriff	\$73,608	\$73,608
Commissioner of Revenue	\$10,130	0
City Treasurer	\$11,832	0
Elections	\$ 5,638	0

Sheriff and Jail

While the City was unable to entirely compensate for the loss of State funding, it should be noted that the City contributes a total of \$4 million to the Sheriff.

Other Highlights:

The Sheriff has brought to the City's attention his need for additional deputies in the jail management function. The Sheriff has indicated that given 28 deputy positions to perform the booking function, he planned to discontinue performing this function, allowing for these deputies to be deployed elsewhere. The City is funding seven deputies in the booking operations. These positions will allow the Sheriff to increase the jail management function by seven positions.

Also approved:

- \$124,000 for ventilation for holding cells.
- \$140,000 to install showers, and for other maintenance at the jail facility.

While the Sheriff anticipates and requested funds for rising food costs, the City will assess that issue at mid-year and, if necessary, make adjustments.

Security for City Hall

This budget contains funding for improving security at City buildings, including City Hall, the courts and the Granby Municipal Building. The City Hall complex will add new guard stations and metal detectors and install a public address system to alert workers and the public to emergencies—such as fire evacuation. Employees will be issued “swipe” access cards that will reduce congestion at public doors where both visitors and employees currently must pass the checkpoint.

On-going efforts are also continuing to safeguard residents. Both Police and Fire and Rescue personnel have received special training, including the National Fire Academy's (NFA) 16-hour Emergency Response to Terrorism: Strategic Considerations training program. In addition, Norfolk police officers have attended the Emergency Response to Terrorism: Tactical Considerations for Company Officers program.

A Norfolk police officer has been detailed to the FBI's anti-terrorism task force for at least a year. The department has also developed a one-hour training module taught during in-service training to enlighten employees on terrorist tactics.

Fire and Rescue developed an anthrax response package. This program includes the response policy (copied by many Fire Departments around the country); instructions to the caller regarding what steps are necessary to return to their homes or businesses; and a large poster to help residents and workers properly respond to potential anthrax exposures.

Supporting young people

In addition to education, the City supports many programs to benefit young people – from the most gifted to the most troubled. Young people are encouraged to get involved in governing the programs that impact their peers – with the police, recreation centers and the City itself sponsoring youth councils.

This year, the State eliminated funding for all local offices on youth and reduced funding for the Virginia Juvenile Community Crime Control Act by 51 percent, and allows the Department of Juvenile Justice to present a plan for converting the program into a competitive grants program in FY04. This will result in a loss of \$970,000 for Norfolk, and more than 500 young people will not receive residential and anger management services. The approved budget includes an additional \$324,000 to partially address the loss.

Libraries

The Capital Budget reserves \$2.8 million in FY03 to begin design work on two anchor branch libraries; one in the Broad Creek area, and the other to replace Pretlow Library in Ocean View. This is the first phase in a multi-year effort to improve our library system.

An alternative library site, perhaps in a local shopping center, is being explored for use during the time that Pretlow is closed. Also, the bookmobile will provide additional services.

The Treasure Truck initially, and for the first year, was funded through the Tidewater Children's Foundation and Verizon. The City will now assume funding for the program and direct the truck to expand services in the evening for adult literacy programs. The Treasure Truck is designed to implement outreach programs and visited 1,988 children, and also visited Salvation Army Shelter children and recreation after-school programs.

Health and Human Services

Public Health

The City share of Public Health funding is \$5.1 million, with State funding to the City of Norfolk at \$6.5 million. The City has accepted \$4 million in federal grant funds for Ryan White AIDS resources. Norfolk is responsible for administering grants for South Hampton Roads and Eastern Currituck County. The federal Ryan White CARE Act provides emergency assistance to localities that are most severely impacted by the HIV epidemic. Additionally, Title I authorizes grants for outpatient and ambulatory health and support services to Eligible Metropolitan Areas which have reported more than 2,000 cases of AIDS in the preceding five years and have a population of at least 500,000.

Human Services

The State cut funding for Human Services by \$927,000 and then mandated that City funding must remain at \$1.05 million — the current maintenance level.

Even before the State announced its cuts, the City was focused on doing a better job of securing all available resources. The Department of Human Services and a State Task Force are working to determine whether more of the City's foster children are eligible for federal funds to cover the cost of room and board, clothing and case management. In January, the department identified 150 children who were eligible, bringing the total number to 220. This initiative is designed to capture Social Security reimbursement for costs now funded by the City. In another initiative, the City's success

in reducing food stamp errors resulted in a \$50,000 State grant to expand the hours of its call assistance center.

Community Services Board

Included in the FY03 Approved Budget, the City will provide \$2 million in local funds for the Norfolk Community Services Board. The Board provides treatment and rehabilitation services to Norfolk residents with mental health, mental retardation and substance abuse problems. The \$2 million represents a \$175,000 increase over FY02. The CSB experienced a dramatic drop in State funding that will most severely impact substance abuse services. This is exacerbated by deep budget cuts to the Criminal Justice and Juvenile Justice systems, which partner with CSB to provide substance abuse services.

Opportunity, Inc. requested \$50,000 in funds for matching grant opportunities it will seek for youth and incumbent work training programs. Although funds have not been specifically budgeted at this time, funds will be made available, up to \$50,000, if grants are obtained to serve Norfolk residents.

Second Chances. The City provides \$238,000 to provide comprehensive support services that lead to full-time employment and social stability for ex-offenders. The agency partners with the Sheriff, Urban League, Opportunity Incorporated and the Drug Court. A new employment counselor will be hired to share the increasing caseload of ex-offenders seeking services.

Employees

While we are unable to advance total compensation as quickly as we had hoped, our proposal is guided by the following priorities:

- Attempt to manage escalating health care costs

- Provide competitive salaries to attract and retain a quality workforce
- Continue to address retirement issues

Health care costs are skyrocketing nationally. In FY02, the City paid an additional \$2.5 million toward employee premiums. In FY03, the City faces a 29% increase. To keep an affordable health care plan we are exploring various offerings and higher employee co-pays. We have budgeted an additional \$2.9 million for these health insurance increases, taking the City's share of the cost for health insurance to over \$12 million.

Employees will see an increase between \$15 and \$100, depending on their plan type. Eighty-nine percent of our employees subscribe to the city's health care plan, which shows how important health care coverage is to employees.

To begin to address another health care issue, the budget contains \$200,000 to implement a tax-advantaged medical savings plan to help employees save for future health insurance during retirement. A medical savings plan is handled like deferred compensation and the City would make a capped contribution to match some portion of the employee contribution. Admittedly, this type of plan does not address current retirees, but offers a good option for future retirees.

Salaries

The Budget includes a 3 percent general wage increase. Step increases are not included for FY03. In arriving at this decision, the City struggled with the issue of health care increases and the consideration that approximately 13.28 percent of City employees are at pay range maximum and not eligible for further pay step adjustments. The general wage increase would provide a salary increase for all classified employees (including those presently at range maximum), since each step in the pay structure is adjusted.

In FY02, the City was able to adjust its pay plans to provide average employee salary increases of 4.2 percent and 5.2 percent for general and public safety sworn

employees, respectively. The adjustment will keep the City's salaries competitive with the anticipated labor market movement during FY03.

\$50,000 is provided to fund several skill- and competency-based pilot projects. These pilots test the use of alternative pay systems to reward quality performance and initiative and are associated with Phase II of the Waters study.

Other Benefits

The City will continue to fund up to 9 credits in the education reimbursement program—despite rising tuition costs and employee participation.

The 27-cents a mile reimbursement rate is increased for employees who are required to use their personal vehicles to conduct City business. This will be the first time since 1997 the rate has been increased, moving it to 34.5 cents per mile. The City took this action to be consistent with rates permitted by the IRS. This is estimated to cost \$137,000.

Retirement

The City anticipates contributing approximately \$4.4 million in FY03 to the Retirement Plan, and facing escalating contributions in coming fiscal years.

Over the last 20 years the stock market generated the highest gains in over a century. It was the first time equity returns exceeded 10 percent in sequential decades, and this same period also saw the best nominal bond returns since 1901. As a result, the City's pension plan enjoyed a surplus status and for the past two years the City was not required to contribute to the fund.

However, given the economic downturn, the fund under-performed actuarial requirements. This under performance precipitates the return to employer contributions. Although future contribution amounts are anticipated to be large in terms of dollars, they are normal for a defined benefit pension plan. Defined benefit pension plans are expensive (in the past, one-year contributions have been as much as \$16 million). Over the next four years, contributions are expected to exceed \$20 million annually.

Also included is a plan amendment to equalize the surviving spouse benefit for employees who qualify for normal or early service retirement. This benefit is anticipated to cost the City approximately \$388,000; however, the exact cost is subject to an actuarial evaluation.

Current Retirees

Also funded is a 2 percent permanent cost of living adjustment for existing retirees as of December 31, 2001, costing approximately \$351,000 in ongoing employer contributions.

Transportation and street maintenance

The Approved Budget contains funding for numerous street and signal programs, including: \$585,000 for signal and intersection enhancements; \$200,000 for a downtown transportation study; \$400,000 for bridge minor repairs and maintenance program; \$250,000 for underpass improvements, starting with Monticello Avenue; \$100,000 for street light repairs that are VDOT reimbursable; and \$50,000 for overhead sign maintenance.

Civic and cultural facilities

Arts Funding. In addition to direct funding, the City provides substantial indirect support to the arts in the form of building and grounds maintenance and major building repairs, reduced rent, security, event setup and cleanup and marketing. Specific program funding includes:

- **Chrysler Museum of Art.** \$2.25 million, an increase of \$125,000 is included to address increased operating costs. Also, \$125,000 would be paid from the Special Revenue Funds created by the tax increases to make needed restroom improvements.

- \$600,000, an increase of \$100,000, is included for the **Norfolk Commission on the Arts**. The Commission provides funds to 30+ groups and the popular Arts Within Reach—a series of free performances showcasing a variety of talents in neighborhoods throughout the City.
- The **Virginia Arts Festival** will receive \$515,000, an increase of \$15,000, because of an increase in artist fees, out-of-region advertising and education outreach for Norfolk Public Schools.
- The **Virginia Zoological Society** receives an annual portion of the admission proceeds that last year amounted to \$275,800. In addition, the City pays the salaries of the executive director and the administrative assistance at a cost of \$135,000.
- **Botanical Garden** receives over \$1 million, an increase of \$50,000. The Garden will add an additional groundskeeper. The CIP budget also contains \$500,000 to replace a bridge that is very dilapidated. The bridge will connect to a future Children's Garden funded through private donations.
- The budget contains \$1.2 million for **Festevents**, a \$225,217 increase over last year. The City funds the administration of Festevents which then obtains corporate sponsorship—along with revenue derived from admittance fees and a portion of concessions—that are used to fund events. To allow more of the Festevents funding request, the City will waive the rent for their administrative offices located in the Town Point garage. The City will provide other in-kind contributions for which Festevents currently must pay. Between the additional funds and in-kind arrangement, which will free up existing funds, the Approved Budget adequately address the requested amount.

Partnerships

This budget contains over \$2.9 million for the **Convention and Visitors Bureau**; honoring their full budget request of a \$113,000 increase. The bureau became independent in 1999 and the convention activities were removed from City responsibility.

SPECIAL REVENUE FUNDS

Cemeteries: The City has established a Special Revenue Fund for cemetery operations. Projects this year include re-setting monuments and memorials that will improve the attractiveness of the grounds and help preserve Norfolk's historic markers.

Utility cut repair work. A new initiative funded in this Budget is the establishment of a Utility Cut Pavement Repair Crew. This will respond to residents' expressed concerns about the length of time between temporary patches and final work, as well as the quality of paving after utility cuts have occurred.

The Department of Public Works will receive \$530,000 and eight new positions to do utility cut repair work. Currently the City receives 120 requests per month to repair the street or sidewalk following a utility cut, and has a backlog of more than 1,200 temporary restorations (temporary repairs last just 30 days, however there is a 7—12 month backlog).

This will respond to residents' expressed concerns about the length of time between temporary patches and final work, as well as the quality of paving after utility cuts have occurred.

By funding additional positions and equipment, the City will be able to speed up the repairs. Currently, utilities contract for the restorations on their timetable. Much of this work is reimbursable by the Virginia Department of Transportation. The budget

allocates \$237,000 for equipment and will phase in staff as revenue to support comes in. Paving will be better and more timely, reducing unsightly temporary fixes.

Towing Services

The budget provides for consolidating towing service operations at the Berkley lot and evaluating the potential sale of the Goff Street lot. Plans are also in place to speed up the time to auction for abandoned vehicles (to the degree the law allows) to cut storage costs. Also planned is beautification of the Berkley lot.

Environmental Storm Water Management

The CIP budget contains \$2.85 million for neighborhood flood reduction and bulkhead projects. In addition, the City has developed a number of creative partnerships: the Elizabeth River Partnership (ERP) has asked Norfolk to partner with them on storm water initiatives, such as the Lenox Water Quality Improvement Project underway at the Division of Environmental Storm Water Management. The City received a \$100,000 State grant this past summer. Our match is \$100,000 and is in the FY03 capital improvement project budget. Storm Water is also working with the ERP, Corps of Engineers, and other cities in the region on wetland restoration projects along a large area of the river by Grandy Village, and a drainage canal by ODU and the Lambert's Point Landfill. The City will pay 35 percent (\$465,000 planned for FY04 and FY05 Storm Water CIP), and the Corps' share will be 65 percent (\$865,000). These projects are under design.

These initiatives are in addition to the \$250,000 State grant that was obtained to fund the Lambert's Point retention pond, and the \$375,000 HUD Disaster Recovery grant for raising street elevations to reduce flooding on 3rd, 4th, 6th or 10th Bay Streets in the Ocean View area. Both of these projects are under construction. Fifty per cent of the funding for the Lambert's Point Pond was from the Utilities Department. NRHA is constructing it.

Strategic land acquisition fund

The Strategic Land Acquisition Fund was established to provide resources to assemble land that is in the public's interest. Funding in the amount of \$2.5 million is approved in FY03. Because Norfolk is land locked, redevelopment of land within the City limits requires foresight and planning. This special revenue fund will be a revolving fund used for the purchase of land for future use. Proceeds of the sales of land purchased through this fund and, on a case-by-case basis with other revenue, will be returned to this fund for future acquisitions.

ENTERPRISE FUNDS

Water Fund: The operating budget for the Water Fund is an increase of \$655,000 over FY02. The Department continues to identify opportunities for improvements. This program is funded at a maintenance level consistent with the prior fiscal year. Customer service and essential infrastructure upgrades and improvements are planned for the upcoming year. The CIP contains \$3.2 million for neighborhood water projects.

Wastewater Fund: The operating budget for the Wastewater Fund is funded at \$15.1 million. Essential improvements to the wastewater infrastructure required to comply with a Consent Order with the State Department of Environmental Quality are planned for the upcoming year which will require a modest fee increase of 14 cents. The CIP budget contains a total of \$2.3 million for sewer upgrades, including \$850,000 for Fairmont Park.

Parking Facilities Fund: The CIP budget contains \$250,000 for garage refurbishment.

THE FUTURE

Financially, the City of Norfolk is stable. Although our rate of revenue growth is slower than we may all want, we continue to grow our base. Norfolk's government is delivering good services and we strive to continuously improve. Norfolk's neighborhoods and schools are consistently improving. And all of us have reason to be proud of our City and the role we play in its success.

So if Norfolk is so good, why is this budget so painstaking?

Because Norfolk must navigate the tides of a state, national and worldwide economy that has been very difficult this year—and may well be challenging for the near term.

Providing the very same level of services in FY03 that was provided in FY02 used much of the growth we received in revenues. To enhance the resources in other areas took even more and required some redistribution of built-in capacity we had achieved through already doing more with less.

Norfolk faced, and will continue to face, the challenges presented by reduced state spending and economic uncertainties. Every program and service continues to be reevaluated. Continuing to forge our way forward, keeping yesterday's promises and fulfilling tomorrow's promise, means rethinking everything that we do.

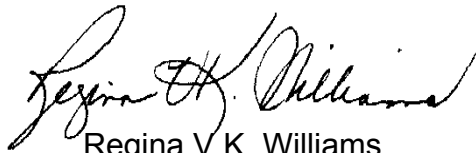
To fulfill residents' requirements, the Commonwealth of Virginia and City intergovernmental financial relationship needs to be restructured to one that provides shared access to the growth sectors of the economy and recognizes service responsibilities. A new urban policy must be established—one that ensures that cities have the resources to meet the needs of residents and businesses. And finally, the funding formula inequities that contribute to the high fiscal stress in cities like Norfolk must be revised.

That is why Norfolk has joined with Virginia's other "First Cities" to launch a grass-roots campaign to change these State laws and policies. Norfolk is working hard. Norfolk is working well. It shall continue to do so. And once the State provides Norfolk

with a level playing field, and once the greater economy regains its footing, Norfolk will speed up even more its continuing ascent.

I know I speak for the entire City in saying we are a great City that just keeps getting better. It is with deep gratitude to a multitude of people who helped develop the FY2003 Approved Budget that I commend it to the City Council for your review and deliberations.

Sincerely,

A handwritten signature in black ink, appearing to read "Regina V.K. Williams". The signature is fluid and cursive, with the first name "Regina" being the most prominent.

Regina V.K. Williams

City Manager